CANADA MORTGAGE AND HOUSING CORPORATION

HOUSING MARKET OUTLOOK

Hamilton CMA

Date Released: Spring 2007

New Home Market

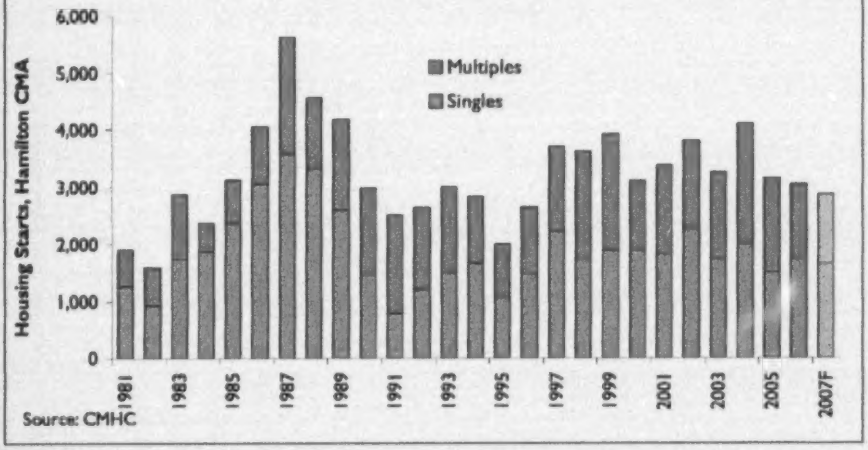
Starts to Edge Down

Total housing starts are expected to reach 2,865 units in 2007 – six per cent below the previous year. This forecast level will be about 15 per cent less than the preceding 10-year annual average of about 3,300 housing starts.

Despite rising home prices, demand for Hamilton single-detached homes will stay strong in 2007. Wealthy ageing baby boomers and Torontonians looking to escape high and rising home prices in some GTA neighbourhoods will keep demand for single-detached homes high in Hamilton. A total of 1,645 single-detached home starts are expected in 2007, representing over 60 per cent of the total housing construction. There is also likely to be an increase in the number of empty nesters (households where children have left home). Anecdotal evidence points to the increasing popularity of luxury condominiums among this group of people. Therefore, although empty nesters are looking to

Figure 1

Starts Will Decline



Source: CMHC

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downsize, this would seem to suggest that they are unwilling to compromise on quality or price. Shrinking household size will also induce some construction of smaller homes. So far this year, there has been a strong rise in townhouse construction. At 925 units, town home starts are expected to remain virtually unchanged in 2007 compared to the previous year. Multi-family home starts are expected to come in at 1,220 in 2007 – six per cent below that of the previous year. Despite the pause, land constraints and demographic changes in the long run will induce more multiple-family homes in the future.

The average of new single-detached home price is expected to reach $425,000 by end of 2007. Rising new listings in the resale home market since 2005 have provided homebuyers with a wider choice both in terms of quality and price. Builders, as a result, will be forced to keep prices low in order to compete with the resale home market. The growth in the New Home Price Index (NHPI), which measures changes in prices of new houses of constant quality, will remain virtually the same at 5.6 per cent in 2007 compared to 5.5 per cent in the previous year. Land constraints have forced builders to construct smaller single-detached homes. This will result in the average of new single-detached home prices to be somewhat lower in 2007.

Resale Market

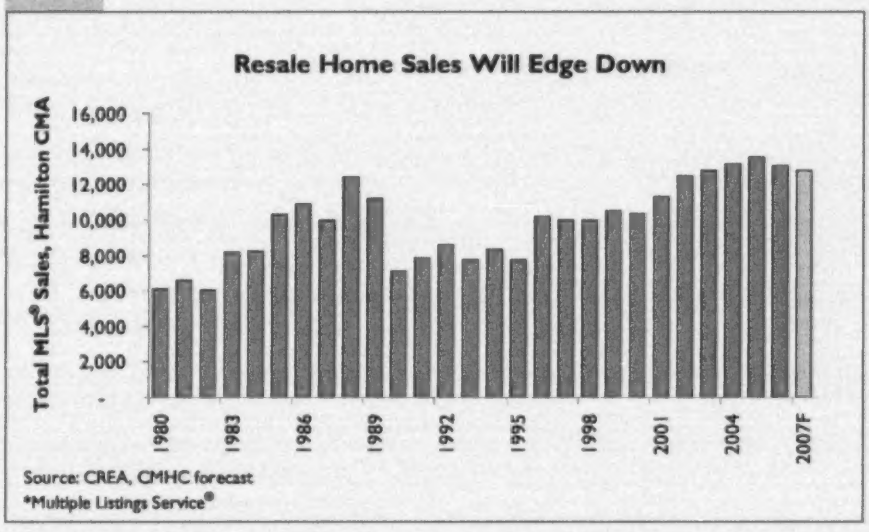
Sales to Soften

Low mortgage rates and lower prices compared to new housing will keep resale home buying activity strong in 2007. Resale home sales will reach 12,800 in 2007– down by just two per cent from the previous year. Sales in 2007 will be the fourth highest level on record. Given that existing single-detached home prices are significantly lower compared to new homes, expect to see more single-detached home sales this year. Condominium apartments and town homes will also be popular with first-time homebuyers who are seeking to enter the ownership market at a lower price point.

Low new listings have characterised the Hamilton market for over a decade. This trend was reversed in late 2004 and listings have been on the rise ever since. As house prices continue to rise, more homeowners will be encouraged to list their homes for sale. Expect to see new listings rise by three per cent in 2007. Despite the growth in new listings, their level will still remain significantly below the peak seen during the mid-1990s.

Despite the expected increase in new listings, the Hamilton resale home market will remain tight and will be classified as a sellers' market. Expected strong sales and relatively low listings will result in a sales-to-new listings ratio (SNLR) of 68 per cent in 2007[1]. The Hamilton resale home market has been in strong sellers' market territory for the past four consecutive years.

Figure 2



[1] The SNLR is a leading indicator of market conditions in Hamilton. A SNLR between 45 and 55 per cent is associated with balanced market conditions and price growth tends to be in line with the general rate of inflation.

Anticipated sellers' market conditions will mean high price growth in the Hamilton resale home market. The average of resale home prices is expected to grow by nearly seven per cent to reach $265,000 in 2007 – more than three times the expected rate of inflation. Popular areas such as Ancaster and Burlington are expected to lead price growth.

Rental Market

Vacancy Rates to Come Down

Rising cost of homeownership due to soaring house prices will cause rental vacancy rates to fall in Hamilton. The average apartment vacancy rate is expected to decline to four per cent by end of 2007 and decline even further next year.

Owing to high vacancy rates in Hamilton in the recent past, rents increases have been forced to be kept low. The Ontario Rent Review Guidelines specifies that rent increases on occupied units must be at or below 2.6 per cent in 2007. The average rent increase in 2007 is expected to be well below the guideline and the general rate of inflation. The benchmark average two-bedroom rent (Hamilton's most popular rental type) will only edge up by 0.5 per cent to $800 in 2007 compared to the previous year.

Economic Overview

Employment Rebound

Hamilton's economic activity slumped in 2006 and thousands of manufacturing jobs were lost in the process. The sluggish US economy and rising Canadian dollar were the main culprits. Falling intra-provincial migration (as a result of more people moving to Western Canada) has also pulled back housing demand somewhat. These factors contributed to a decline in overall housing demand last year. Hamilton's steel sector, which has been heavily affected by falling sales in the US automotive industry (to which Stelco is a large supplier), is expected to face similar challenges in the 2007. The strong Canadian dollar will only add to its woes. Increasing competition from Asian competitors in China and India will also have a negative impact on steel exports.

The services sector, however, is expected to mitigate some of the foreseen negative effects in the manufacturing sector. New funding in the Hamilton's education sector will create new employment opportunities. Job growth, in line with population growth, is expected to remain steady at 1.6 per cent in 2007.

Limited natural increase has meant that migration (especially intra-provincial and international migration) has played a large role in Hamilton's population growth. Immigration is expected to remain steady and as a

Figure 3

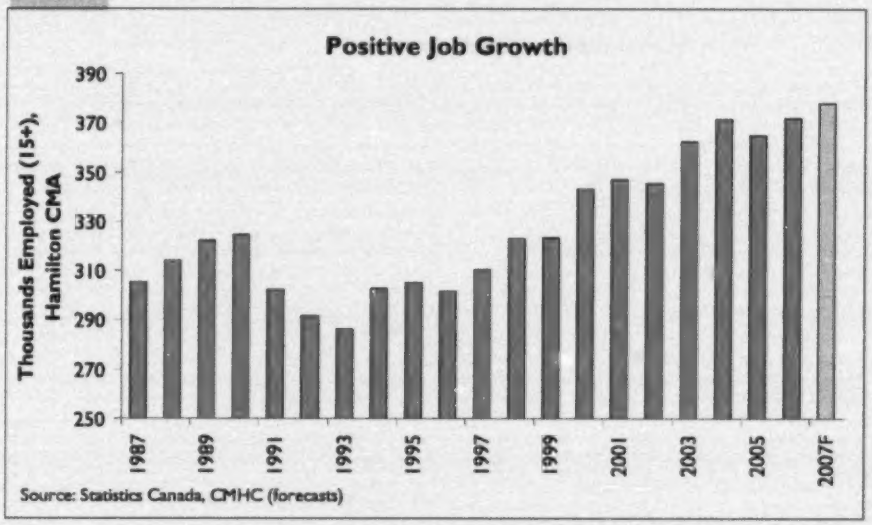


Figure 4

result, net migration into Hamilton is expected to stay unchanged at 1,300 persons in 2007.

2006 Census Results

Hamilton's total population in the Census 2006 increased by 4.6 per cent compared to that of 2001. This increase is slightly below the provincial increase, which stood at 6.6 per cent for the same time period. Despite declining birth rates, steady immigration and intra-provincial migration (especially from Torontonians moving to Hamilton to escape rising house prices there) can mainly account for this increase in population over the last five years.

Mortgage Rate Forecast

Mortgage Rates Will Remain Low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008.

Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months while the long-term mortgage rates will rise slightly in line with bond rates.

One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively over the rest of this year and in 2008.

Forecast SUMMARY Hamilton CMA Spring 2007	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	13,176	13,565	13,059	12,800	-2.0	12,500	-2.3
MLS® New Listings	17,223	17,646	18,414	18,900	2.6	19,600	3.7
MLS® Average Price ($)	215,922	229,753	248,754	265,000	6.5	280,000	5.7
New Home Market							
Starts:							
Single-Detached	1,995	1,502	1,741	1,645	-5.5	1,580	-4.0
Multiples	2,098	1,643	1,302	1,220	-6.3	1,200	-1.6
Semi-Detached	158	204	138	100	-27.5	100	0.0
Row/Townhouse	1,196	1,002	948	925	-2.4	920	-0.5
Apartments	744	437	216	195	-9.7	180	-7.7
Starts - Total	4,093	3,145	3,043	2,865	-5.8	2,780	-3.0
Average Price ($):							
Single-Detached	316,705	369,808	392,305	425,000	8.3	452,000	6.4
Median Price ($):							
Single-Detached	294,000	327,495	335,000	n/a	n/a	n/a	n/a
New Housing Price Index (% chg.)	5.4	5.7	5.5	5.6	-	5.4	-
Rental Market							
October Vacancy Rate (%)	3.4	4.3	4.3	4.0	n/a	3.8	n/a
Two-bedroom Average Rent (October) ($)	789	791	796	800	0.5	805	0.6
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.10	6.29	-0.12
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.18	6.80	0.17
Annual Employment Level	371,800	365,200	371,900	378,000	1.6	383,000	1.3
Employment Growth (%)	2.5	-1.8	1.8	1.6	-	1.3	-
Unemployment rate (%)	6.3	5.5	5.9	5.7	-	5.4	-
Net Migration	3,403	1,453	1,249	1,300	0.0	1,400	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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